

Current Support Brief

DRIVE TO ESTABLISH SOVIET "FIRMS"
GIVEN NEW IMPETUS



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DRIVE TO ESTABLISH SOVIET "FIRMS"
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Extensive plans for the establishment of new Soviet "firms" in all branches of industry in the Central Urals region recently have been announced by the chairman of the Central Urals Sovnarkhoz. 1/ These plans, although not spelled out in detail, appear to parallel those proposed in July 1962 by the L'vov Sovnarkhoz -- but later scaled back -- to unite in firms most of the principal industrial enterprises in the L'vov region. The announcement, together with reports of the establishment of numerous new firms in other economic administrative regions of the RSFSR and with newspaper editorials chastising some regions for failing to establish firms, appears to signal a renewed drive to establish firms throughout the Soviet economy.

The extensive setting up of firms, together with the elimination of branch administrations, may bring some benefit, both in the form of savings in the cost of administration and in economies of scale resulting from increased specialization of production and of ancillary services. The immediate benefits, however, are likely to be quite small. The technical possibilities for the attainment of substantial increases in specialization are not everywhere the same, and if firms are widely established, many probably will find that significant increases in specialization are attainable only at exorbitant cost in investment.

1.. Objectives for Establishing Firms

The firm -- or branch production association -- is an organizational unit that unites a number of small enterprises and design bureaus of a branch of industry in an economic region in a single large enterprise. The merging of enterprises in firms has three major objectives. First, by placing each of these firms under the direction of an outstanding, or "lead," enterprise, it is hoped that the amount of detailed supervision required from the sovnarkhoz can be reduced, making possible a reduction in its administrative staff. Second, by centralizing administration of the firm in the "lead" enterprise, it is hoped that internal costs of administering the affiliated enterprises can be reduced and that better coordination can be attained among the affiliated enterprises than is attainable under the branch (of industry) administrations of the sovnarkhozes to which they now are subordinate. Third, through the improvement of coordination thus attained, it is hoped that substantial economies

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of scale can be obtained by increasing the specialization both of production and of ancillary services such as design, supply of materials, and marketing of finished products.

2. Anatomy of the Firm

The Soviet press has identified two main types of firms -- the firm-association and the firm-enterprise. The latter appears to be more tightly knit and thus far is the dominant form. In the typical firm, administration and ancillary services are centralized in the "lead" enterprise -- usually the largest of the affiliated enterprises -- and each of the affiliated enterprises becomes analogous to a shop of the firm, and its director is subordinated to the director of the "lead" enterprise, who in turn becomes director of the firm. In the ideal firm the production facilities and employees are reallocated among the affiliates to permit each affiliate to specialize in a limited phase of the firm's over-all production program. For example, in the case of the widely publicized L'vov shoe firm, "Progress," each of the four branch affiliates are specialized in the assembly and finishing of a single major type of shoe. The "lead" enterprise is specialized in cutting parts and in sewing components for assembly in the branches and in repairing equipment. Shoes that are produced in small quantities or that for other reasons are not adaptable to mass production techniques are produced entirely by the "lead" enterprise.

Because of the large investment required and because of the limited technical possibilities for such a thoroughgoing integration of the affiliated enterprises, however, the actual degree of integration of the affiliates often has been far less than ideal. For example, specialization in some recently established firms has been limited to toolmaking, repair, and warehousing. 2/

Firms differ sharply from the trusts. Firms are enterprises subject to economic accountability (khozraschet) -- that is, they are recognized units for cost accounting and for determining profits and taxes. In addition, they are held responsible for specified goals -- including output, costs, and profits. On the other hand, trusts are not enterprises but are subdivisions of the branch administrations of the sovnarkhozes, with enterprises subordinate to them. The individual subordinate enterprises are subject to economic accountability, but the trusts are not.

Firms also may be distinguished from combines (kombinaty), although the latter are subject to economic accountability. Whereas all enterprises united in firms normally are classed in the same branch of industry, the enterprises united in a combine are engaged in various

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stages of processing of a single raw material such as iron ore and thus normally are classed in different branches of industry. Although a number of combines in the light and food branches of industry have been included in firms, few if any of those in heavy industry have been so included.

3. Effects on the Sovnarkhoz of the Establishment of Firms

At the present time, administration of each of the 47 economic administrative regions is carried out by a sovnaarkhoz by means of two kinds of subordinate administrations: (a) functional administrations such as those for planning, finance, and material-technical supply, which perform these functions for the economic region as a whole, and (b) branch of industry administrations, which direct in considerable detail the activities of all but the largest of the individual enterprises subordinate to the sovnaarkhoz. Large enterprises and combines that require little individual attention normally are subordinated directly to the sovnaarkhoz. The branch of industry administrations, whose numbers typically vary from 5 to 20 in an economic region, are subdivided into functional departments whose functions correspond approximately to those of the functional administrations of the sovnaarkhoz. The branch administrations have been criticized as providing an unnecessary and duplicating link in the administrative apparatus. They have been retained, however, because they have been considered essential in providing detailed guidance and services for small and medium-size enterprises -- particularly with respect to design of products, advice on production methods, material-technical supply, and marketing of finished products.

Under the concept of the firm the enterprises now subordinate to the branch administration would be united in a small number of large firms that presumably would need no more detailed guidance than is now provided to the large enterprises and combines. In this fashion, which in effect transfers the functions of the branch administrations to the "lead" enterprises of the firms, the branch administrations could be abolished with attendant savings in costs of administration.

4. Development of Firms

Although originally proposed by a deputy director of the Leningrad Sovnarkhoz in 1959, 3/ the first firm was established by the L'vov Sovnarkhoz late in 1961, apparently at its own initiative. 4/ Since

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that time, about 150 to 175 firms have been established, primarily at the initiative of individual sovnarkhozes located mainly in the RSFSR and the Ukraine. 5/ Most of these firms are composed of small and medium-size enterprises and are concentrated in the light, food, construction materials, and wood-processing branches of industry. A few, however, have been established in such branches of heavy industry as machine building, electrical equipment, and cement and include such industrial giants as the Elektrosil (Leningrad) and Uralmash (Sverdlovsk) enterprises. Until the present time the main emphasis in establishing firms has been placed on cutting costs of administration and increasing specialization within the enterprises united in firms rather than on eliminating branch administrations.

5. The L'vov Plan

So far the only instance of a systematic effort to place in firms all or most enterprises subordinate to a sovnarkhoz and to eliminate the branch administrations occurred in the L'vov Sovnarkhoz. The L'vov plan, which was announced in the summer of 1962, called for the establishment of 55 firms covering all branches of industry in the economic region and accounting for about 90 percent of the region's industrial production. 6/

During the fall of 1962 the plan was subjected to harsh criticism in the Soviet press. The main force of this criticism was that accumulating experience indicated that the major economic benefit to be derived from firms was the opportunity which they provided for increasing specialization of production, not the mere reshuffling of administrative employees or the elimination of branch administrations. Although the L'vov plan was approved by the republic sovnarkhoz of the Ukraine early in November 1962, 7/ the entire plan was scrapped shortly after the National Party Plenum in November 1962, and at least 10 of the 26 firms then in operation in L'vov were abolished, apparently as a result of this criticism. 8/ Since that time, although the number of firms has increased slowly throughout the USSR, no plans to reinstate the L'vov plan or to initiate similar plans for other economic regions had been made public until the recent announcement by the Central Urals Sovnarkhoz.

6. Prospects for the Further Establishment of Firms

The announcement of extensive plans in October 1963 for establishing firms in the Central Urals region, together with indications of their recent

extensive establishment in other regions of the RSFSR, such as the Lower Volga region, 9/ suggests that the major emphasis on establishing firms has shifted. The emphasis on the careful consideration of the technical possibilities for increased specialization apparently pursued since the November 1962 Plenum has to some extent given ground recently to a renewed emphasis on eliminating branch administrations through a more rapid and universal establishment of firms. Moreover, announcements during the summer of 1963 by the USSR sovnarkhoz supporting the establishment of firms, as well as newspaper editorials chastising sovnarkhozes that do not propose them, suggest that the attitude of the top Soviet leadership toward firms has changed. 10/ The apparent conditional support for firms that followed the November Plenum has been replaced recently by a policy of active encouragement.

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